INSTRUCTIONS

765

Commonwealth of Kentucky
Department of Revenue

KENTUCKY PARTNERSHIP INCOME AND LLET RETURN

2018

PURPOSE OF INSTRUCTIONS

These instructions have been designed for Kentucky partnerships that afford their partners or members, through function of the laws of this state or laws recognized by this state, protection from general liability for actions of the entity. These partnerships are required by law to file a Kentucky Partnership Income and LLET Return (Form 765). Form 765 is complementary to the federal form 1065.

HOW TO OBTAIN ADDITIONAL FORMS

Forms and instructions are available at all Kentucky Taxpayer Service Centers (see page 19). They may also be obtained by writing FORMS, Department of Revenue, P. O. Box 518, Frankfort, KY 40602–0518, or by calling 502–564–3658. Forms can be downloaded from **www.revenue.ky.gov**.

KENTUCKY TAX LAW CHANGES

Enacted by the 2018 Regular Session of the General Assembly—There are many amendments to Kentucky's tax code with most changes effective beginning in tax year 2018. The Department of Revenue ("Department") has guidance online at **https://TaxAnswers.ky.gov** and **https://revenue.ky.gov/TaxProfessionals/Pages/Guidance**.

Tax Rate—For tax year 2018, a flat income tax rate of five percent (5%) was enacted for both corporations and individuals.

Internal Revenue Code (IRC) Update—House Bill (HB) 487 updates the Internal Revenue Code (IRC) reference date from December 31, 2015, to December 31, 2017, including the adoption of many of the provisions of the Federal Tax Cuts and Jobs Act (TCJA) for purposes of computing income tax, except for depreciation differences contained in KRS 141.0101.

Kentucky has adopted the following federal provisions:

- The eighty percent (80%) of taxable income limitation for the net operating loss (NOL) deduction and an unlimited carryforward of unused net operating losses for NOL generated on or after 1/1/18
- Net interest expense deduction limitation
- Repeal of the Domestic Production Activity Deduction
- Tax treatment of Foreign Derived Intangible Income
- Globally Intangible Low Taxed Income (see Kentucky TAM 18-02)

Distinct Federal/State Differences:

- Kentucky continues to be decoupled from the federal law for the depreciation deduction and IRC Section 179 expense deduction.
- Kentucky did not adopt the new federal twenty percent (20%) deduction for Qualified Business Income of Pass-through Entities.

Apportionment Changes for 2018:

The apportionment factor for assigning multi-state income to Kentucky changed from a three (3)-factor apportionment formula based on sales, property, and payroll to a single-factor formula based on receipts. This change is effective for taxable years beginning on or after January 1, 2018. Note that "sales factor" refers to the "receipts factor".

Receipts from services and the sale of intangibles are assigned to Kentucky under the single-factor formula if the taxpayer's market for the sales is in this state.

A three (3)-factor apportionment method is still required for corporations in the business of providing:

- Communications service;
- Cable service; or
- Internet access.

Special apportionment provisions are retained for passenger airlines and qualified air freight forwarders.

Tax Credit Changes:

- A new Inventory Tax Credit was created and is effective January 1, 2018. It is a nonrefundable and nontransferable credit against income and limited liability entity taxes for tangible personal property (ad valorem) tax **timely** paid on inventory. The credit is phased-in as follows: 25% in 2018; 50% in 2019; 75% in 2020; and 100% in 2021 and thereafter.
- The refundable film industry tax credit was changed to a nonrefundable and nontransferable credit for applications approved on or after April 27, 2018.

- The Incentives for Energy Independence Act (IEIA) ultimately will sunset on August 1, 2018 and no more incentives under that program will be approved after that date.

Tax Administration Changes:

- The time to protest an assessment or reduced refund was increased from 45 to 60 days. This change is applicable to notices of tax due or reduced refund notices issued on or after July 1, 2018.

Kentucky Revised Statutes—Kentucky Revised Statutes are referred to in these instructions as "KRS" and can be found online at **www.lrc.ky.gov/statutes**.

Kentucky Administrative Regulations—Kentucky Administrative Regulations are referred to in these instructions as "KAR" and can be found online at **www.lrc.ky.gov/kar/titles.htm**.

CURRENT YEAR INTEREST RATE

Pursuant to KRS 131.183, the 2019 tax interest rate has been set at five percent (5%). The rate charged by the Kentucky Department of Revenue on unpaid taxes is seven percent (7%) and when interest is due on a refund, the rate is three percent (3%).

KENTUCKY FORM CHANGES

New:

Schedule INV—Kentucky Inventory Tax Credit schedule is new for taxable years beginning on or after January 1, 2018 and is used to calculate the Inventory Tax Credit against income and LLE taxes for ad valorem (property) taxes timely paid on inventory.

Updated:

Form 2220–K—This form is no longer required to be attached to the return and is now a supporting worksheet used to calculate the underpayment penalty and interest due on late or underpaid estimated tax installment(s).

Schedule A—Part I, Lines 1 through 12 were separated to distinguish the difference in computation of apportionment fraction for all companies (Lines 1 through 3, single sales factor) and for Providers that continue to use the three (3)-factor apportionment (Lines 1 through 12). For all other companies, Lines 4 through 12 must be completed for informational purposes. See KRS 141.120 and KRS 141.121(1)(e).

Forms 720S, 720S(K), 765, 765(K), 765-GP, 765–GP(K), and applicable Schedules K–1—Separated the previous Apportionment Pass-through Items into two sections to distinguish the differences in computing the apportionment factor. The sections are now labeled Apportionment for Pass-through Items and Apportionment for Providers.

Schedule TCS—The Tax Credit Summary was updated to add the Film Industry and Inventory tax credits.

Schedule RPC—This schedule has been shortened and simplified. All previous questions are maintained, but many have been combined or reformatted to reduce confusion.

Schedule O–720 and Schedule O–PTE—Have been shortened significantly due to the elimination of numerous deductions because of federal and Kentucky tax law changes.

Discontinued:

- **Schedule CI**—Application for Coal Incentive Tax Credit
- **Schedule FD**—Food Donation Tax Credit (2018 is the final year in which any unused prior year credit carryforward may be utilized)
- **Schedule HH**—Kentucky Housing for Homeless Families Deduction
- **Schedule KESA**—Kentucky Environmental Stewardship Act Tax Credit
- **Schedule KEOZ**—Kentucky Economic Opportunity Zone Tax Credit
- **Form 8903-K**—Kentucky Domestic Production Activities Deduction

Electronic Filing FAQs and Helpful Tips

- If your return is rejected for an invalid Kentucky Corporation/LLET Account Number or Federal Employer Identification Number (FEIN), please complete Form 20A100, "Declaration of Representative," and contact our **Registration Section at 502-564-3306** for instructions on how to obtain an account number.
- Direct debit is an option for electronically filed forms; however, direct deposit is not.
- If your e-filed return has been **REJECTED, DO NOT** submit a 720V voucher at that time. You will get a **NEW** 720V voucher once you have successfully filed an accepted Kentucky return. (Note: The Submission ID number will change each time your return is sent to the Kentucky Department of Revenue.)
- To determine which forms are supported by your software, please check with the company that develops your software.

More Options for Taxpayers Paying Online

The Department of Revenue (DOR) is now able to offer taxpayers additional payment options for Limited Liability Entity Tax (LLET). Taxpayers can make a payment online for an e-filed Partnership Income and LLET Return that would normally be sent with a Form 720-V voucher. LLET payments for bills, estimates, and extensions can also be made using the Enterprise Electronic Payment System (EEPS). To use EEPS, go to www.revenue.ky.gov and click on the E-File & Payments tile. From the selections of tax types available, click "Limited Liability Entity Tax (LLET)" and select the Electronic Payment link. To make payments, the FEIN is required along with the Kentucky Corporate/LLET 6-digit account number.

Filing Tips and Checkpoints

The following list of filing tips is provided for your convenience to help ensure that returns are processed accurately and promptly. To avoid processing problems, please note the following:

- **Schedule COGS**—If the company is computing its LLET based on gross profits, the new Schedule COGS, Limited Liability Entity Tax Cost of Goods Sold, must be attached to Form 765. Failure to include this schedule may result in a tax adjustment and assessment.
- **Account Closure**—When ceasing operations and closing an account, there are different requirements for the Secretary of State and the Department of Revenue.
- **Account Number/FEIN**—Always ensure the correct Kentucky Corporation/LLET account number and FEIN is used on the return being filed.
- **Payments**—Place payments on the front of the return so they are clearly visible when the return is processed.
- **Payments**—Do not leave check stubs attached to checks when sending in a payment. Check stubs delay the machines that sort incoming mail, which causes longer processing times.
- **Estimated Payments**—Make estimated payments on a timely basis to avoid penalty and interest. When making EFT payments online, use the Taxable Year Ending, NOT the due date of the payment.
- **Form 720V**—Form 720V is a payment voucher for e-filed returns, NOT an extension form. To extend a filing date, use Form 720EXT, Extension of Time to File Kentucky Corporation/LLET Return.
- **Extensions**—Extensions are for extending the filing date only; late payment penalties and interest apply to payments made after the original due date.
- **Corrected K-1's**—Adjustments to LLET or distributive share require that corrected Kentucky K-1's are sent to all partners, members, or shareholders for proper compliance by taxpayers.
- **Schedule A**—Do not check the box on Schedule A, Apportionment and Allocation, indicating the use of an alternative allocation and apportionment formula if the partnership has not received written approval from the Department of Revenue. If written approval has been received, a copy of the letter from the Department of Revenue must be attached to the return when filed.
- **Additional errors that delay processing returns or create adjustments include:**
  - Incorrect form submitted
  - Incorrect tax exemption code
  - Incomplete information
  - Missing forms or schedules
  - Incorrect taxable year end
  - Tax Payment Summary Section of return blank or incorrect
  - Failure to include payment of tax due with the return
  - Omitting Form 720EXT when paying with an extension

IMPORTANT

Partnerships must create a Kentucky Form 4562, Schedule D and Form 4797 by converting federal forms.

Depreciation, Section 179 Deduction and Gains/Losses From Disposition of Assets—For taxable years beginning after December 31, 2001, Kentucky depreciation and IRC §179 deduction are determined per the Internal Revenue Code in effect on December 31, 2001. For calendar year 2018 returns and fiscal year returns that begin in 2018, any partnership that for federal purposes elects in the current taxable year or has elected in past taxable years any of the following will have a different depreciation and IRC §179 expense deduction for Kentucky:

- MACRS bonus depreciation; or
- IRC §179 expense deduction in excess of $25,000.

If a partnership has taken MACRS bonus depreciation or IRC §179 expense deduction in excess of $25,000 for any year, federal and Kentucky differences will exist, and the differences will continue through the life of the assets.

Important: If a partnership has not taken MACRS bonus depreciation or the IRC §179 expense deduction in excess of $25,000 for any taxable year, then no adjustment will be needed for Kentucky income tax purposes. **If federal Form 4562 is required to be filed for federal income tax purposes, a copy must be submitted with Form 765 to substantiate that no adjustment is required.**

Determining and Reporting Depreciation and IRC §179 Deduction Differences—federal/Kentucky depreciation or IRC §179 deduction differences must be reported as follows:

1. The depreciation from federal Form 1065, Line 16(a) must be included on Form 765, Part I, Line 3. **If federal Form 4562 is required to be filed for federal income tax purposes, a copy must be attached to Form 765.**

2. Convert federal Form 4562 to a **Kentucky** form by entering **Kentucky** at the top center of the form above Depreciation and Amortization. Compute Kentucky depreciation and IRC §179 deduction per IRC in effect on December 31, 2001, by ignoring the lines and instructions regarding the special depreciation allowance and the additional IRC §179 deduction. **NOTE:** For Kentucky purposes, the maximum IRC §179 deduction amount on Line 1 is $25,000 and the threshold cost of IRC §179 property on Line 3 is $200,000. The $25,000 maximum allowable IRC §179 deduction for Kentucky purposes is reduced dollar–for–dollar by the amount by which the cost of qualifying IRC §179 property placed in service during the year exceeds $200,000. In determining the IRC §179 deduction for Kentucky, the income limitation on Line 11 should be determined by using Kentucky net income before the IRC §179 deduction instead of federal taxable income.

3. The partnership **must attach the Kentucky Form 4562** to Form 765, and the amount from Kentucky Form 4562, Line 22 less the IRC §179 deduction on Line 12 must be included on Form 765, Part I, Line 8. The IRC §179 deduction from the Kentucky Form 4562, Line 12 must be included on Form 765, Schedule K, Section A, Line 9. A Kentucky Form 4562 must be filed for each year even though a federal Form 4562 may not be required.

Determining and Reporting Differences in Gain or Loss From Disposition of Assets—If during the year the partnership disposes of assets on which it has taken the special depreciation allowance or the additional IRC §179 deduction for federal income tax purposes, the partnership will need to determine and report the difference in the amount of gain or loss on such assets as follows:

1. Convert **federal Schedule D (Form 1065)** and other applicable federal forms to Kentucky forms by entering **Kentucky** at the top center of the form, and compute the Kentucky capital gain or (loss) from the disposal of assets using Kentucky basis. Enter the amount from Kentucky Schedule D, Line 7 on Form 765, Schedule K, Section A, Line 4(d) or 7. Enter the amount from Kentucky Schedule D, Line 15 on Form 765, Schedule K, Section A, Line 4(e) or 7. **Federal Schedule D (Form 1065) filed with the federal return and the Kentucky Schedule D must be attached to Form 765.**

2. If the amount reported on federal Form 1065, Line 6 (from Form 4797, Line 17) is a gain, enter this amount on Schedule O–PTE, Part II, Line 1. If the amount reported on federal Form 1065, Line 6 (from Form 4797, Line 17) is a loss, enter this amount on Schedule O–PTE, Part I, Line 1. Convert **federal Form 4797** and other applicable federal forms to Kentucky forms by entering **Kentucky** at the top center of the form, and compute the Kentucky gain or (loss) from the sale of business property listing Kentucky basis. If the amount on Kentucky Form 4797, Line 17 is a gain, enter this amount on Schedule O–PTE, Part I, Line 2. If the amount on Kentucky Form 4797, Line 17 is a loss, enter this amount on Schedule O–PTE, Part II, Line 2. **Federal Form 4797 filed with the federal return and the Kentucky Form 4797 must be attached to Form 765.**

Tax Treatment of a Partnership (Afforded Limited Liability Protection) and Partners or Members

For taxable years beginning on or after January 1, 2007, a partnership that affords any of its partners or members, through function of the laws of this state or laws recognized by this state, protection from general liability for actions of the entity is classified as limited liability pass–through entity per KRS 141.010(15). For taxable years beginning on or after January 1, 2007, an annual limited liability entity tax (LLET) must be paid by every corporation and every limited liability pass–through entity doing business in Kentucky on all Kentucky gross receipts or Kentucky gross profits per KRS 141.0401(2), unless specifically excluded. See LLET Exemption Codes on page 8 of these instructions.

In determining tax per KRS Chapter 141, a resident individual, estate, or trust that is a partner or member of a partnership classified as a limited liability pass–through entity must take into account the partner's or member's total distributive share of the partnership's items of income, loss, and deduction. In determining tax per KRS Chapter 141, a nonresident individual, estate, or trust that is a partner or member of a partnership must take into account the partner's or member's total distributive share of the partnership's items of income, loss, and deduction multiplied by the apportionment fraction per KRS 141.206(11)(b). **KRS 141.206(7) and (8)**

In determining tax per KRS Chapter 141, a corporation that is a partner or member of a partnership must take into account its total distributive share of the partnership's items of income, loss, and deduction. **KRS 141.206(9)**

The LLET credit allowed partners or members of a partnership classified as a limited liability pass–through entity is the partners' or members' proportionate share of the LLET for the current year after the subtraction of any credits identified in KRS 141.0205 and reduced by $175. The credit allowed partners or members may be applied to the income tax assessed on income from the partnership. Any remaining credit from the partnership will be disallowed. **KRS 141.0401(3)**

GENERAL INFORMATION

Internal Revenue Code Reference Date—Kentucky's Internal Revenue Code (IRC) reference date is December 31, 2017, including the provisions contained in Pub. L. No. 115-97, exclusive of any amendments made subsequent to that date, other than amendments that extend provisions in effect on December 31, 2017, that would otherwise terminate, for purposes of computing corporation and individual income tax, except for depreciation differences per KRS 141.0101.

Kentucky Tax Registration Application—Prior to doing business in Kentucky, each entity should complete a Kentucky Tax Registration Application, Form 10A100, to register for a Kentucky Corporation/LLET Account Number. This account number will be used for remitting the corporation income tax per KRS 141.040 and LLET per KRS 141.0401.

Register your business online at **http://onestop.ky.gov** using the One Stop Business Services link.

1. Go to **onestop.ky.gov** .

2. Click on **Begin Your Registration**. **Note:** The One Stop Business Services login page provides information for creating a user account as well as portal security. You will also find overview information for the services the portal currently provides. This information is updated regularly to reflect new services and notify you when additional agencies join the portal.

3. If you do not already have a One Stop user account, click on the link labeled **Click here to create one**. Once a user account has been created, an e-mail will be sent to you with further instructions to activate the account and login.

4. Once logged in,

   - If your business needs to register with both the Secretary of State and the Department of Revenue or only needs to register with the Department of Revenue, use the **Register My Business** option, to register for tax accounts and your Commonwealth Business Identifier (CBI).

   - If the business is already registered with the Secretary of State and you do not already have access to the business on your Dashboard, choose the **Link My Business** option. Enter the Commonwealth Business Identifier (CBI), Security Token, and Business Name exactly as it appears on your Kentucky articles of organization/incorporation, your Kentucky Certificate of Authority, or your CBI letter (including all punctuation) and link your business, click Send Invite and follow the instructions sent to your email to register for tax accounts.

The Link My Business option will require you to name at least one "**One-Stop Portal Business Administrator**" (for example, the business owner or representative).

> **Note:** The administrator can then delegate access to other individuals—for example, an attorney, accountant, or manager. The administrator also determines the appropriate authority level for delegates to make changes—this could range from filing annual reports with the Secretary of State's office, changing the business address, or filing and paying taxes. Only the One Stop business administrator(s) can grant, approve, withdraw, or revoke access to the business.

5. Once you have linked your business, your business name and CBI number will appear in the My Businesses box on the dashboard, click on the CBI number, once your business loads, click on the Tax Administration tab to register for tax accounts.

The paper application is available by calling the Department of Revenue, Division of Registration and Data Integrity at 502–564–3306, or can be downloaded at **www.revenue.ky.gov** (click on Form Search, and search for 10A100). The application may be faxed to 502–227–0772 or e-mailed to **DOR.Registration@ky.gov**

Who Must File—LLET and Corporation Income Tax

LLET— The limitations imposed and protections provided by the United States Constitution or Pub. L. No. 86–272 do not apply to the limited liability entity tax imposed by KRS 141.0401. A Kentucky Partnership Income and LLET Return (Form 765) must be filed by every partnership: (a) being organized under the laws of this state; (b) having a commercial domicile in this state; (c) owning or leasing property in this state; (d) having one or more individuals performing services in this state; (e) maintaining an interest in a pass–through entity doing business in this state; (f) deriving income from or attributable to sources within this state, including deriving income directly or indirectly from a trust doing business in this state, or deriving income directly or indirectly from a single member limited liability company that is doing business in this state and is disregarded as an entity separate from its single member for federal income tax purposes, or (g) directing activities at Kentucky customers for the purpose of selling them goods or services. **KRS 141.010(7), KRS 141.040, KRS 141.0401, and KRS 141.206**

Disregarded Entities—A limited liability company (LLC) is treated for Kentucky income tax purposes in the same manner as it is treated for federal income tax purposes. Therefore, a single member LLC that is disregarded for federal income tax purposes should be included in the return filed by its single member (owner). **KRS 141.010(7)**

Pass-through Entities—A pass–through entity doing business in Kentucky solely as a partner or member in a pass–through entity will file Form 765 per KRS 141.010, KRS 141.120, and KRS 141.206. (See Schedule A—Apportionment and Allocation Instructions.)

Nonresident Withholding and Composite return (Form 740NP-WH)

A partner or member that is an S corporation or partnership is not subject to withholding. S corporations and partnerships are pass-through entities per KRS 141.010(21).

KRS 141.206(4) provides that for taxable years beginning on or after January 1, 2007, every pass–through entity required to file a return under KRS 141.206(1), except publicly traded partnerships defined in KRS 141.0401(6)(r), must withhold Kentucky income tax or file a composite return on the distributive share, whether distributed or undistributed, of each nonresident individual **(includes an estate or trust)** partner, member, or shareholder, or each C–corporation partner or member that is doing business in Kentucky only through its ownership interest in a pass–through entity. Withholding and composite filing is at the highest rate provided in KRS 141.020 or KRS 141.040.

Withholding is not required if: (a) the partner, member, or shareholder is exempt from withholding per KRS 141.206(6)(a); (b) the partner or member is exempt from Kentucky income tax per KRS 141.040(1); (c) the pass-through entity is a qualified investment partnership per KRS 141.206(14), and the partner, member, or shareholder is an individual; or (d) the partner or member is a pass-through entity.

For taxable years beginning on or after January 1, 2012, a pass-through entity required to withhold or file a composite return on Kentucky income tax per KRS 141.206 must make estimated tax payments if required by KRS 141.206(5). If the pass-through entity is required to make estimated tax payments for taxable years beginning on or after January 1, 2012, use Form 740NP-WH-ES (Kentucky Estimated Tax Voucher).

The reporting of a nonresident individual's, estate's, or trust's net distributive share income and withholding on Form 740NP–WH at the rate of five percent (5%) will satisfy the filing requirements of KRS 141.180 for a nonresident individual, estate, or trust partner, member, or shareholder whose only Kentucky source income is net distributive share income. The partners', members', or shareholders' distributive share of income must include all items of income or deduction used to compute adjusted gross income on the Kentucky return that is passed through to the partner, member, or shareholder by the pass–through entity, including but not limited to interest, dividend, capital gains or losses, guaranteed payments, and rents (KRS 141.206(15)). The nonresident individual, estate, or trust partner, member, or shareholder may file a Kentucky Individual Income Tax Return Nonresident or Part–Year Resident (Form 740–NP) or a Kentucky Fiduciary Income Tax Return (Form 741) to take advantage of the credits and deductions.

A pass–through entity must file Form 740NP–WH and complete a Form PTE–WH for each nonresident individual, estate, or trust partner, member, or shareholder; or corporate partner or member. Form 740NP–WH with Copy A of each Form PTE–WH must be filed and paid by the 15th day of the fourth month following the close of the taxable period. Provide copies B and C of Form PTE–WH to the partner, member, or shareholder.

Required Forms and Information—A partnership must enter all applicable information on Form 765, attach a schedule for each line item or line item instruction which states "attach schedule," and attach the following forms or schedules, if applicable:

Kentucky Forms and Schedules

1. Kentucky Partnership Income and LLET Return (Form 765)
2. Kentucky Partner's Share of Income, Credits, Deductions, Etc.—Schedule K–1 (Form 765)
3. Apportionment and Allocation (Schedule A)
4. Limited Liability Entity Tax—Continuation Sheet (Schedule L–C)
5. Cost of Goods Sold (Schedule COGS)
6. Application for Filing Extension (Form 720EXT)
7. Tax Credit Summary Schedule (Schedule TCS)
8. Related Party Costs Disclosure Statement (Schedule RPC)
9. Other Additions And Subtractions To/From Federal Ordinary Income (Schedule O–PTE)

Required Federal Forms and Schedules

All partnerships **must** provide a copy of the following federal forms submitted to the Internal Revenue Service:

1. Form 1065, all pages.
2. Form 1125-A—Cost of Goods Sold
3. Form 4797—Sales of Business Property
4. Schedule D—Capital Gains and Losses
5. Form 5884—Work Opportunity Credit

6. Schedules for items on Form 1065, Schedule L, which state, "attach schedule."
7. Form 4562—Depreciation and Amortization
8. Form 8825—Rental Real Estate Income and Expenses of a Partnership or an S Corporation

Electronic Funds Transfer (EFT)—The Department of Revenue accepts electronically filed Corporation Income Tax/Limited Liability Entity Tax estimated tax voucher payments and extension payments for corporation income tax and limited liability entity tax. Before filing by EFT, the partnership must have a valid six-digit Kentucky Corporation/LLET Account Number and have registered with the Department of Revenue to file EFT. **Using an incorrect account number, such as an account number for withholding or sales and use tax, may result in the payment being credited to another taxpayer's account.** When making payments online, use the taxable year ending, NOT the due date of the payment.

For more information contact the Department of Revenue at 800–839–4137 or 502–564–6020. The EFT registration form is available at **www.revenue.ky.gov**.

Accounting Procedures—Kentucky income tax law requires a partnership to report income on the same calendar or fiscal year and to use the same methods of accounting required for federal income tax purposes. Any federally approved change in accounting periods or methods must be reported to the Department of Revenue. Check the applicable box on page 1, Item F and attach a copy of the federal approval to the return when filed. **KRS 141.140**

Mailing/Payment—If including payment for other taxes in addition to LLET, send a separate check or money order for each tax type.

Mail return to:

Kentucky Department of Revenue
P. O. Box 856910
Louisville, KY 40285-6910

Make the check(s) payable to **Kentucky State Treasurer**.

Mail returns with no tax due or refund requests to:

Kentucky Department of Revenue
P. O. Box 856905
Louisville, KY 40285-6905

Filing/Payment Date—A partnership return must be filed and payment must be made on or before the 15th day of the fourth month following the close of the taxable year. **KRS 141.160, KRS 141.220, and 103 KAR 15:050**

If the filing/payment date falls on a Saturday, Sunday, or a legal holiday, the filing/payment date is deemed to be on the next business day. **KRS 446.030(1)(a)**

Extensions—A six-month extension of time to file a partnership income and LLET return may be obtained by filing Form 720EXT or attaching a copy of the federal extension to the return when filed. **A copy of the federal extension submitted after the return is filed does not constitute a valid extension, and late filing penalties will be assessed.** If the partnership is making a payment with its extension, Kentucky Form 720EXT must be used. For further information, see the instructions for Form 720EXT. **103 KAR 15:050**

NOTE: An extension of time to file a return does not extend the date for payment of tax.

LLET Estimated Taxes

The Corporation Income/Limited Liability Entity Tax Estimated Tax Voucher, Form 720-ES, is used to submit estimated tax payments for LLET. See **Electronic Funds Transfer (EFT)**. If the partnership is required to make estimated LLET payments and needs Form 720-ES vouchers, contact the Department of Revenue at 502–564–3658.

Estimated Tax Payments—A partnership must make estimated tax installments if its tax liability under KRS 141.0401 can reasonably be expected to exceed $5,000. Estimated tax installments are required as follows:

If the estimated tax is reasonably expected to exceed $5,000 before the 2nd day of the 6th month, 50% of the estimated tax must be paid by the 15th day of the 6th month, 25% by the 15th day of the 9th month, and 25% by the 15th day of the 12th month.

If the estimated tax is reasonably expected to exceed $5,000 after the 1st day of the 6th month and before the 2nd day of the 9th month, 75% of the estimated tax must be paid by the 15th day of the 9th month, and 25% by the 15th day of the 12th month.

If the estimated tax is reasonably expected to exceed $5,000 after the 1st day of the 9th month, 100% of the estimated tax must be paid by the 15th day of the 12th month.

Safe harbor: A partnership can satisfy its declaration requirement if its current year estimated tax payments, including prior year credit, are equal to the tax liability per KRS 141.0401 for the prior tax year, and its tax liability for the prior tax year was equal to or less than $25,000.

Interest: Failure to pay estimated tax installments on or before the due date prescribed by KRS 141.044 will result in an assessment of interest on the late payment or underpayment. The interest due on any late payment or underpayment will be at the rate provided by KRS 131.183(1). **KRS 141.044 and KRS 141.985**

Penalty: Failure to pay estimated tax installments equal to the amount determined by subtracting $5,000 from 70% of the tax liability due per KRS 141.0401 as computed by the taxpayer on the return filed for the taxable year will result in an underpayment penalty of 10% of the underpayment. The underpayment penalty will not apply if the current year estimated tax payments, including prior year credit, are equal to or greater than the tax liability due per KRS 141.0401 for the previous taxable year, and the tax liability due per KRS 141.0401 for the previous taxable year was equal to or less than $25,000. **KRS 131.180(3) and KRS 141.990(3)**

Other Information

Amended Return—To correct Form 765 as originally filed, file an amended Form 765 and check the appropriate box on page 1, Item F. If the amended return results in a change in income or a change in the distribution of any income or other information provided to partners, an amended Schedule K-1 (Form 765) must also be filed with the amended Form 765 and given to each partner. Check the Amended K-1 box on each Schedule K-1 to indicate that it is an amended Schedule K-1.

Internal Revenue Service Audit Adjustments—A partnership which has received final adjustments resulting from Internal Revenue Service audits must submit copies of the "final determinations of the federal audit" within 180 days of the conclusion of the federal audits. Use Form 765 for reporting federal audit adjustments, check the Amended Return box, and attach the complete Revenue Agents Report (RAR).

Mail returns with federal audit adjustments (RAR) to:

Corporate Governmental Programs Section
P. O. Box 1074, Station 68
Frankfort, KY 40602-1074

Interest—Interest at the tax interest rate is applied to LLET liability not paid by the date prescribed by law for filing the return (determined without regard to extensions thereof). See page 1 for the current year rate.

Penalties

Failure to file a Kentucky Partnership Income and LLET Return by the filing date including extensions—2 percent of the LLET due for each 30 days or fraction thereof that the return is late (maximum 20 percent). The minimum penalty is $10. **KRS 131.180(1)**

Failure to pay LLET by the payment date—2 percent of the LLET due for each 30 days or fraction thereof that the payment is overdue (maximum 20 percent). The minimum penalty is $10. **KRS 131.180(2)**

Late payment or underpayment of estimated tax penalty—10 percent penalty of the late payment or underpayment. The minimum penalty is $25. **KRS 131.180(3)**

Failure or refusal to file a Kentucky Income and LLET Return or furnish information requested in writing—5 percent of the tax assessed for each 30 days or fraction thereof that the return is not filed or the information is not submitted (maximum 50 percent). The minimum penalty is $100. **KRS 131.180(4)**

Negligence—10 percent of the tax assessed. **KRS 131.180(7)**

Fraud—50 percent of the tax assessed. **KRS 131.180(8)**

Cost of Collection Fees—25 percent on all taxes which become due and owing for any reporting period, regardless of when due. These collection fees are in addition to all other penalties provided by law. **KRS 131.440(1)(b)**

Records Retention—The Department of Revenue deems acceptable virtually any records retention system which results in an essentially unalterable method of records storage and retrieval, provided: (a) authorized Department of Revenue personnel are granted access, including any specialized equipment; (b) taxpayer maintains adequate back-up; and (c) taxpayer maintains documentation to verify the retention system is accurate and complete.

FORM 765—SPECIFIC INSTRUCTIONS

Item A—LLET Exemption Code

If the partnership is exempt from LLET, enter one of the following two–digit codes in the space provided. **Failure to include a valid code will delay the processing of the tax return and may result in a tax notice for assessment of taxes and penalties.**

REASON CODE	REASON
12	A property or facility which has been certified as a fluidized bed energy production facility as defined in KRS 211.390.
13	An alcohol production facility as defined in KRS 247.910.
21	A qualified investment partnership as defined in KRS 141.206(14)(a).

Item B—Income Exemption Code

If the partnership is exempt from filing a Kentucky partnership income return, enter the following two-digit code in the space provided. **Failure to include a valid code will delay the processing of the tax return and may result in a tax notice for assessment of taxes and penalties.**

REASON CODE	REASON
22	This return contains only the LLET as the partnership is exempt from filing a Kentucky income return as provided by Public Law 86-272.

Item C—Enter the number of partners (Attach K–1s).

Item D—Enter the partnership's federal identification number. See federal Publication 583 if the partnership has not obtained this number.

Item E—Enter the six-digit Kentucky Corporation/LLET Account Number on the applicable line at the top of each form and schedule **and on all checks and correspondence**. This number was included in correspondence received from the Department of Revenue at the time of registration.

Using an incorrect account number, such as an account number for withholding or sales and use tax, may result in the payment and/or return being credited to another taxpayer's account.

If the Kentucky Corporation/LLET Account Number is not known, complete Form 20A100, "Declaration of Representative," and contact Registration at 502–564–3306 for information on how to obtain an account number.

Name and Address—Print or type the name of the partnership as set forth in the Articles of Organization. For the address, include the suite, room, or other unit number after the street address. If the U.S. Postal Service does not deliver mail to the street address and the partnership has a P.O. Box, show the box number instead of the street address.

Change of Name—Check the applicable box if the partnership's name has changed since the filing of the prior year Kentucky tax return. Attach a statement to the tax return providing the partnership's name reflected on the prior year Kentucky tax return.

Telephone Number—Enter the business telephone number of the partner or member signing the return.

Period Covered—File the 2018 return for calendar year 2018 and fiscal years that begin in 2018. For a fiscal year, fill in the taxable period beginning and ending at the top of Form 765.

NOTE: For 52/53 week filers, fill in the taxable period beginning and ending dates as specified below:

- Begin on the first day of the calendar month beginning nearest to the first day of the 52/53-week tax year.
- End on the last day of the calendar month ending nearest to the last day of the 52/53-week tax year.

All partnerships must enter Taxable Year Ending at the top right of Form 765 and supporting forms and schedules to indicate the ending month and year for which the return is filed.

- A calendar year is a period from January 1 through December 31 each year. This would be entered as:

12/18
MM YY

- A fiscal year is 12 consecutive months ending on the last day of any month except December. A fiscal year ending January 31, 2019, would be entered as:

01/19
MM YY

- A 52/53-week year is a fiscal year that varies between 52 and 53 weeks. Example: A 52/53-week year ending the first week of the month would be entered as the month and year of the prior month. If it ends the first week of January 2019, the taxable year ending would be entered as:

12/18
MM YY

Failure to properly reflect the **Taxable Year Ending** may result in delinquency notices or billings for failure to file.

State and Date of Organization—Enter the entity's state and date of organization.

Principal Business Activity in Kentucky—Enter the entity's principal business activity in Kentucky.

North American Industrial Classification System (NAICS)—Enter your six-digit NAICS code. To view a complete listing of NAICS codes, visit the Census Bureau at **www.census.gov/eos/www/naics.**

Item F—Check the applicable boxes:

(a) *LLC*—The partnership is organized as a limited liability company (LLC).

(b) *LP*—The partnership is organized as a limited partnership (LP).

(c) *LLP*—The partnership is organized as a limited liability partnership (LLP).

(d) *Initial Return*—This is the partnership's first time filing a partnership return in Kentucky. Complete questions 1 and 2 on Schedule Q–Kentucky Partnership Questionnaire.

(e) *Change of Accounting Period*—The partnership has changed its accounting period since it filed its prior year Kentucky tax return. Attach a statement to the tax return showing the partnership's taxable year end before the change and its new taxable year end. If the partnership received written approval from the Internal Revenue Service to change its taxable year, attach a copy of the letter.

(f) *Qualified Investment Partnership*—The partnership is a qualified investment partnership per KRS 141.206(14)(a).

(g) *Final Return*—This is the partnership's final Kentucky tax return. Check the appropriate box in Part III – Explanation of Final Return and/or Short-Period Return.

(h) *Short-period Return*—This return is for a period of less than one year and not an initial return or final return. Check the appropriate box in Part III – Explanation of Final Return and/or Short-Period Return.

(i) *Amended Return*—This is an amended tax return. Provide an explanation of all changes in Part IV – Explanation of Amended Return Changes.

Item G—Provider 3-Factor Apportionment Code

If the entity is a provider as defined in KRS 141.121(1)(e), enter one of the following two-digit codes in the space provided. The apportionment fraction for a provider continues to be calculated using a three (3)- factor formula as provided in KRS 141.901 for tax years beginning on or after January 1, 2018.

Failure to include a valid code will delay the processing of the tax return and may result in a tax notice for assessment of taxes and penalties.

REASON CODE	PROVIDER BUSINESS
31	Communications service as defined in KRS 136.602;
32	Cable service as defined in KRS 136.602;
33	Internet service as defined in 47 U.S.C. sec. 151; or
34	Other (attach statement)

PART I—ORDINARY INCOME (LOSS) COMPUTATION

Line 1—Enter the amount from federal Form 1065, Line 22, ordinary business income (loss) from trade or business activities. **Attach Form 1065, all pages.**

Additions to Federal Ordinary Income—Lines 2 through 5 specify additional income or unallowed deductions which are differences between federal ordinary income and Kentucky ordinary income.

Line 2—Enter state taxes measured in whole or in part by gross or net income. "State" means any state of the United States, the District of Columbia, the Commonwealth of Puerto Rico, any territory or possession of the United States or any foreign country or political subdivision thereof. Attach a schedule reflecting the total taxes deducted on Form 1065. **KRS 141.039(2)(c)**

Line 3—See instructions on page 4 regarding depreciation and IRC §179 deduction differences, and if applicable, include the depreciation amount from Line 16a of Form 1065 (do not include the IRC §179 deduction). **If federal Form 4562 is required to be filed for federal income tax purposes, a copy must be attached.**

Line 4—Enter related party cost additions from Schedule RPC, Part II, Section B, Line 1.

Line 5—Enter the amount from Schedule O–PTE, Part I, Line 7.

Line 6—Enter the total of Lines 1 through 5.

Subtractions from Federal Ordinary Income—Lines 7 through 9 specify additional deductions allowed which are differences between federal ordinary income and Kentucky ordinary income.

Line 7—Enter the amount of the work opportunity credit reflected on federal Form 5884. For Kentucky purposes, the partnership may deduct the total amount of salaries and wages paid or incurred for the taxable year. **This adjustment does not apply for other federal tax credits.**

Line 8—Enter Kentucky depreciation (do not include IRC §179 deduction). See instructions on page 4 regarding depreciation and IRC §179 deduction differences, and if applicable, Kentucky converted Form 4562 must be attached.

Line 9—Enter the amount from Schedule O-PTE, Part II, Line 7.

Line 10—Subtract Lines 7, 8, and 9 from Line 6.

PART II—LLET COMPUTATION

Line 1—Enter the amount from Schedule L, Section D, Line 1.

Line 2—Enter the sum of all recapture amounts from Schedule RC–R, Line 12, Form 8874(K)-B, Line 3, and/or Schedule DS, page 2, Line 10. **Attach Schedule RC–R, Form 8874(K)-B, and/or Schedule DS.**

Line 3—Enter the total of Lines 1 and 2.

Line 4—Enter the nonrefundable LLET credit from Kentucky Schedule(s) K-1. **Copies of Kentucky Schedule(s) K–1 must be attached to the tax return in order to claim the credit.**

Line 5—Enter the total tax credits from Schedule TCS, Part III, Column E, Line 1 **(attach Schedule TCS)**.

Line 6—Enter the greater of Line 3 less Lines 4 and 5, or $175.

Line 7—Enter the total estimated LLET payments made for the taxable year. Do not include the amount credited from the prior year.

Line 8—Enter the refundable Certified Rehabilitation Tax Credit **(attach the Kentucky Heritage Council certification(s) or Kentucky Schedule(s) K–1 Form 765-GP)**.

Line 9—Enter the refundable Film Industry Tax Credit **(attach the Kentucky Film Office certification(s)) or Kentucky Schedule(s) K-1 Form 765-GP.**

NOTE: For applications approved prior to April 27, 2018 this credit is refundable and should be entered here. For applications approved on or after April 27, 2018, this credit is nonrefundable and should be entered on Schedule TCS.

Line 10—Enter the amount of LLET paid with Form 720EXT, Extension of Time to File Kentucky Corporation/LLET Return.

Line 11—Enter the amount credited to 2018 from Form 765, Part II, Line 18 of the 2017 tax return.

Line 12—Enter the LLET paid on the original return. **This line is used when filing an amended return.**

Line 13—Enter the LLET overpayment on the original return. **This line is used when filing an amended return.**

Line 14—If the total of Lines 6 and 13 is greater than the total of Lines 7 through 12, enter the difference on this line and enter the amount on Line 1 of the LLET Payment Summary.

Line 15—If the total of Lines 6 and 13 is less than the total of Lines 7 through 12, enter the difference on this line.

Line 16—Enter the portion of Line 15 to be credited to 2018 LLET interest due.

Line 17—Enter the portion of Line 15 to be credited to 2018 LLET penalty due.

Line 18—Enter the portion of Line 15 to be credited to 2019 LLET.

Line 19—Enter the portion of Line 15 to be refunded (Line 15 less Lines 16 through 18).

Tax Payment Summary

The payment due with Form 765 must be itemized. Enter the LLET payment due from page 1, Part II, Line 14 on the applicable tax payment line in addition to the respective amount of interest and penalty. Enter the total payment due on the Total Payment line.

SCHEDULE Q—Answer all applicable questions on Schedule Q. The Kentucky Secretary of State Organization number can be found online at **www.sos.ky.gov**. This is not the same number as the Corporation/LLET Account Number reported in Item E on page 1.

SCHEDULE K (FORM 765)

General Instructions—Complete all applicable lines by entering the total pro rata share amount for each item listed. Federal instructions for Form 1065 and federal Schedule K provide additional information which will assist the partnership in completing Schedule K, Form 765.

A partnership must use Form 765(K), Kentucky Schedule K For Partnerships With Economic Development Project(s), if the partnership has one or more projects under the Kentucky Rural Economic Development Act (KREDA), Kentucky Industrial Development Act (KIDA), Kentucky Jobs Retention Agreement (KJRA), Kentucky Industrial Revitalization Act (KIRA), Kentucky Jobs Development Act (KJDA), Kentucky Business Investment Program (KBI), Kentucky Reinvestment Act (KRA), Incentives for Energy Independence Act (IEIA), or Farming Operation Networking Project (FON).

Section A—Income (Loss) and Deductions

Line 1—Enter Kentucky ordinary income (loss) from trade or business activities reported on Form 765, Part I, Line 10.

Line 2—Enter net income (loss) from rental real estate activities reported on federal Schedule K, Form 1065, adjusted to reflect any differences in Kentucky and federal income tax laws.

Line 3(a)—Enter the gross income from other rental activities reported on federal Schedule K, Form 1065.

Line 3(b)—Enter the expenses from other rental activities reported on federal Schedule K, Form 1065, adjusted to reflect any differences in Kentucky and federal income tax laws.

Line 3(c)—Enter the difference of Line 3(a) and Line 3(b).

Line 4(a)—Enter interest income from federal Schedule K, Form 1065, adjusted to exclude tax-exempt U.S. government interest, if any, and to include interest income from obligations of states other than Kentucky and their political subdivisions.

Lines 4(b) and 4(c)—Enter the amount of dividend and royalty income reported on federal Schedule K, Form 1065.

Line 4(d)—See instructions on page 4 regarding **differences in gain or loss from disposition of assets**, and if applicable, enter the amount from Line 7 of the Kentucky Schedule D that is portfolio income. Report any gain or loss that is not portfolio income on Line 7, Schedule K, Form 765. **Kentucky Schedule D must be attached to Form 765.** Otherwise, enter the amount from Line 7 of the federal Schedule D (Form 1065) that is portfolio income.

Line 4(e)—See instructions on page 4 regarding **differences in gain or loss from disposition of assets**, and if applicable, enter the amount from Line 15 of the Kentucky Schedule D that is portfolio income. Report any gain or loss that is not portfolio income on Line 7, Schedule K, Form 765. **Kentucky Schedule D must be attached to Form 765.** Otherwise, enter the amount from Line 15 of the federal Schedule D (Form 1065) that is portfolio income.

Line 4(f)—Enter any other portfolio income not reported on Lines 4(a) through 4(e), Schedule K, Form 765.

Line 5—Enter guaranteed payments to partners from federal Schedule K, Form 1065.

Line 6—See instructions on page 4 regarding **differences in gain or loss from disposition of assets**. If applicable, enter the amount from Line 7 of the Kentucky Form 4797, and **Kentucky Form 4797 must be attached to Form 765**. Otherwise, enter net gain (loss) under IRC §1231 from federal Form 4797. Do not include net gains (losses) from involuntary conversions due to casualties or thefts on this line. Instead, report them on Line 7.

Line 7—Enter all other items of income (loss) of the partnership not included on Lines 1 through 6. See federal instructions for Schedule K, Form 1065.

Line 8—Enter total contributions paid by the partnership during its taxable year and attach a schedule showing separately the contributions subject to the 50 percent, 30 percent and 20 percent limitations. These percentage limitations must be applied to the Kentucky amounts rather than the federal amounts.

Line 9—See instructions on page 4 regarding **depreciation and IRC §179 deduction differences**, and if applicable, include the amount from Line 12 of the Kentucky Form 4562. ***Kentucky Form 4562 must be attached.*** Otherwise, enter IRC §179 deduction from federal Form 4562.

Line 10—Enter the expenses related to portfolio income reported on federal Schedule K, Form 1065, adjusted to exclude expenses related to tax–exempt interest income and other exempt income.

Line 11—Enter any other deductions of the partnership not included on Lines 8, 9, and 10. See federal instructions for Schedule K, Form 1065.

Line 12(a)—Enter the partnership's deductible interest expense allocable to debt on property held for investment purposes. Property held for investment purposes includes property that produces investment income (interest, dividends, annuities, royalties, etc.). The total amount entered should equal the amount of interest expense reported on federal Schedule K, Form 1065, adjusted to exclude any interest expense on debts incurred to purchase or carry investment property producing, or held for the production of, U.S. government interest income.

Lines 12(b)(1) and (b)(2)—Enter only the investment income included on Lines 4(a), 4(b), 4(c), and 4(f), Schedule K, Form 765, and only the investment expenses included on Line 10, Schedule K, Form 765. See federal instructions for Schedule K, Form 1065.

Line 13—Use the following codes for tax credits passed through to the partnership's owners.

KSBTC—Kentucky Small Business tax credit per KRS 141.384; attach a copy of the Kentucky Economic Development Finance Authority notification

STICA—Skills Training Investment Credit Act tax credit per KRS 141.405; attach copy of the Bluegrass State Skills Corporation certification(s)

CR—Certified Rehabilitation tax credit per KRS 171.397; attach a copy of the Kentucky Heritage Council certification(s)

UTC—Kentucky Unemployment tax credit per KRS 141.065; attach Schedule UTC

RC—Recycling/Composting Equipment tax credit per KRS 141.390; attach Schedule RC

KIFA—Kentucky Investment Fund tax credit per KRS 154.20-258; attach a copy of the Kentucky Economic Development Finance Authority notification with the credit amount granted and the first year the credit may be claimed

QR—Qualified Research facility tax credit per KRS 141.395; attach Schedule QR

GED—GED incentive tax credit per KRS 164.0062; attach GED-Incentive Program Final Report (Form DAEL-31) for each employee that completed a learning contract during the year

VERB—Voluntary Environmental Remediation tax credit per KRS 141.418; attach Schedule VERB

BIO—Biodiesel tax credit per KRS 141.424; attach Schedule BIO

CCI—Clean Coal Initiative tax credit per KRS 141.428; attach Schedule CCI

ETH—Ethanol tax credit per KRS 141.4242; attach Schedule ETH

CELL—Cellulosic Ethanol tax credit per KRS 141.4244; attach Schedule CELL

RR–I—Railroad Maintenance and Improvement tax credit per KRS 141.385; attach Schedule RR-I

RR–E—Railroad Expansion tax credit per KRS 141.386; attach Schedule RR-R

ENDOW—ENDOW Kentucky tax credit per KRS 141.438; attach Schedule ENDOW

NMDP—New Markets Development Program tax credit per KRS 141.434; attach Form 8874(K)-A

DS—Distilled Spirits tax credit per KRS 141.389; attach Schedule DS

INV—Inventory tax credit per KRS 141.408; attach Schedule INV.

Line 14(a)—Enter the information provided on federal Schedule K, Form 1065, Line 13c(1).

Line 14(b)—Enter the amount reported on federal Schedule K, Form 1065, Line 13c(2).

Line 15—Enter the total amount of interest income of the partnership from U.S. government bonds and securities and obligations of Kentucky and its political subdivisions.

Line 16—Enter the total amount of any other type of income of the partnership where the partner is exempt from Kentucky income tax.

Line 17—Enter the total amount of nondeductible expenses paid or incurred by the partnership including, but not limited to, state taxes measured by gross/net income, expenses related to tax–exempt income, etc. Do not include a deduction reported elsewhere on Schedule K, Form 765, capital expenditures, or items the deductions for which are deferred to a later year.

Line 18—Enter the amount reported on federal Schedule K, Form 1065, Line 19a and 19b, adjusted to reflect any differences in Kentucky and federal tax laws, such as depreciation.

Line 19—Attach schedules to report the partnership's total income, expenses, and other information applicable to items not included on Lines 1 through 12 and Lines 14 through 19 including, but not limited to, any recapture of IRC §179 deduction, gross income, and other information relating to oil and gas well properties enabling the partnership to figure the allowable depletion deduction, and any other information the partners need to prepare their Kentucky income tax returns. See federal instructions for Schedule K, Form 1065, Line 13d.

SECTION B—LLET Pass-through Items (Required)

Line 1—Enter the partnership's Kentucky gross receipts from Schedule L, Section A, Column A, Line 2.

Line 2—Enter the partnership's total gross receipts from Schedule L, Section A, Column B, Line 2.

Line 3—Enter the partnership's Kentucky gross profits from Schedule L, Section A, Column A, Line 5.

Line 4—Enter the partnership's total gross profits from Schedule L, Section A, Column B, Line 5.

Line 5—Enter the limited liability entity tax (LLET) nonrefundable credit from page 1, Part II, the total of Lines 4 and 6, less $175.

SECTION C—Apportionment Pass–through Items (if applicable)

Line 1—Enter the partnership's Kentucky sales from Schedule A, Part I, Line 1.

Line 2—Enter the partnership's total sales from Schedule A, Part I, Line 2.

Section D—Apportionment for Providers (KRS 141.121(1)(e))

Line 1—Enter the partnership's Kentucky property from Schedule A, Part I, Line 5.

Line 2—Enter the partnership's total property from Schedule A, Part I, Line 6.

Line 3—Enter the partnership's Kentucky payroll from Schedule A, Part I, Line 8.

Line 4—Enter the partnership's total payroll from Schedule A, Part I, Line 9.

SCHEDULE L—LIMITED LIABILITY ENTITY TAX COMPUTATION

Purpose of Schedule—Schedule L, Limited Liability Entity Tax Computation, is used to compute the limited liability entity tax (LLET) per KRS 141.0401(2). If the partnership filing the tax return is a partner or member of a limited liability pass-through entity or general partnership (organized or formed as a general partnership after January 1, 2006) doing business in Kentucky, complete Schedule L-C, Limited Liability Entity Tax—Continuation Sheet.

Short-Period Computation of LLET—For short-period returns, annualizing gross receipts or gross profits is not permitted. A minimum of $175 is due per taxable year. *Taxable year* is defined as the period for which the return is made. **KRS 141.010(28)**

Section A of this schedule must be completed by the partnership, except a partnership exempt from LLET per KRS 141.0401(6). If the partnership filing the tax return is a partner or member of a limited liability pass-through entity or general partnership doing business in Kentucky, complete Schedule L-C, Limited Liability Entity Tax—Continuation Sheet. Kentucky gross receipts, Kentucky gross profits, total gross receipts from all sources, and total gross profits from all sources must be completed per KRS 141.0401(1). See the line-by-line instructions below.

Section B of this form must be completed to compute the LLET on Kentucky gross receipts.

Section C of this form must be completed to compute the LLET on Kentucky gross profits.

Section D of this form must be completed to show the LLET liability before the application of any tax credits.

LINE-BY-LINE INSTRUCTIONS

Check Box—If the entity is required to attach Schedule L-C, check the box.

Section A—Computation of Gross Receipts and Gross Profits

If the partnership filing the tax return is a partner or member of a limited liability pass-through entity or general partnership doing business in Kentucky, complete Schedule L-C and enter the total amounts from Schedule L-C, Section A, Lines 2 and 5 on Schedule L, Section A, Column A, Lines 2 and 5; and the total amounts from Schedule L-C, Section B, Lines 2 and 5 on Schedule L, Section A, Column B, Lines 2 and 5, and continue to Schedule L, Sections B, C, and D unless the amount in Section A, Column B, Line 2 is $3,000,000 or less (see form).

Line 1(a)—Enter Kentucky gross receipts less returns and allowances in Column A and Total gross receipts less returns and allowances in Column B. Gross receipts includes but is not limited to sales, rent, proceeds from the sale of real and tangible personal property, interest, and dividends.

Line 1(b)—Enter Kentucky gross receipts allocable to a "qualified exempt organization" defined in KRS 141.0401(7).

Line 3(a)—Enter the Kentucky cost of goods sold and total cost of goods sold from Schedule COGS, Columns A and B, Line 8. For an entity other than manufacturing, producing, reselling, retailing, or wholesaling, no costs can be claimed. **KRS 141.0401(1)(d)**

Line 3(b)—Enter the Kentucky cost of goods sold associated with the gross receipts allocable to a "qualified exempt organization" defined in KRS 141.0401(7).

Section B—Computation of Gross Receipts LLET

Line 1—If gross receipts from all sources (Column B, Line 2) are greater than $3,000,000, but less than $6,000,000, enter the following: (Column A, Line 2 x 0.00095) – ($2,850 x (($6,000,000 – Column A, Line 2) / $3,000,000)), but in no case shall the result be less than zero.

Line 2—If gross receipts from all sources (Column B, Line 2) are $6,000,000 or greater, enter the following: Column A, Line 2 x 0.00095.

Line 3—Enter the amount from Line 1 or Line 2.

Section C—Computation of Gross Profits LLET

Line 1—If gross profits from all sources (Column B, Line 5) are greater than $3,000,000, but less than $6,000,000, enter the following: (Column A, Line 5 x 0.0075) – ($22,500 x (($6,000,000 – Column A, Line 5) / $3,000,000)), but in no case shall the result be less than zero.

Line 2—If gross profits from all sources (Column B, Line 5) are $6,000,000 or greater, enter the following: Column A, Line 5 x 0.0075.

Line 3—Enter the amount from Line 1 or Line 2.

Section D—Computation of LLET

Line 1—Enter the lesser of Section B, Line 3 or Section C, Line 3. If less than $175, enter the minimum of $175 here and on page 1, Part II, Line 1.

Signature—Form 765 must be signed by a partner or member. Failure by a partner or member to sign the return, to complete all applicable lines on any required Kentucky form, to attach all applicable schedules, including copies of federal forms, or to complete all information on the questionnaire will delay the processing of tax returns.

SCHEDULE K–1 (FORM 765)—KENTUCKY PARTNER'S SHARE OF INCOME, CREDITS, DEDUCTIONS, ETC.

General Instructions

Schedule K–1 (Form 765) shows each partner's pro rata share of the partnership's income, deductions, credits, etc. On each Schedule K–1 (Form 765), enter the names, addresses, and identifying numbers of the partner and partnership and complete items A, B, C, D, E, and F. All partners' names, Social Security or identifying numbers, and other partner information must be complete and legible. Schedule K–1 (Form 765) must be completed and given to each partner with instructions on or before the day on which Form 765 is filed with the Department of Revenue.

A copy of each partner's K–1 (Form 765) must be attached to Form 765 filed with the Department of Revenue and a copy kept as part of the partnership's records.

Specific Instructions

Federal instructions for Schedule K–1 (Form 1065) explain the rules for allocating items of income (loss), deductions, credits, etc., to each partner. The distributive share items reported on all Kentucky Schedules K-1, Lines 1 through 19 must equal the amounts reported on Kentucky Schedule K, Lines 1 through 19. The distributive share items reported on all Schedules K–1, Sections B, C, and D must equal the amounts reported on comparable lines of Schedule K, Sections B, C, and D. Schedule K–1, Section E does not correspond with Schedule K.

Multiple Activities—If items of income, loss or deduction from more than one activity are reported on Lines 1, 2, or 3 of Schedule K–1 (Form 765), the partnership must provide information for each activity to its partners. See **Passive Activity Reporting Requirements** in the instructions for Schedule K–1 (Form 1065) for details on the information to be provided on an attachment to Schedule K–1 (Form 765) for each activity.

At–Risk Activities—If the partnership is involved in one or more at–risk activities for which a loss is reported on Schedule K–1 (Form 765), the partnership must report information separately for each at–risk activity. See **Special Reporting Requirements for At–Risk Activities** in the federal instructions for Schedule K–1 (Form 1065) for details on the information to be provided on an attachment to Schedule K–1 (Form 765) for each at-risk activity.

Sections A, B, C, and D—Enter the partner's total pro rata share of each item listed on Schedule K, Form 765. **Do not multiply these amounts by the percentage entered on Item D(2)**. Attach schedules showing separately the required information for each IRC §469 passive activity and each IRC §465 at-risk activity. Other schedules are to be attached for line items where requested on Schedule K–1 (Form 765).

Enter on attached schedules the supplemental information required to be reported separately to each partner for Lines 1 through 19 and any other information or items and amounts not included on Schedule K–1 (Form 765) for which the partner needs to prepare a Kentucky income tax return including, but not limited to, any recapture of IRC §179 deduction, gross income, and other information relating to oil and gas well properties enabling the partner to figure the allowable depletion deduction, etc. See instructions for federal Schedule K–1 (Form 1065), Line 20.

Schedule TCS is used by partnerships to apply tax credits for entities subject to the limited liability entity tax (LLET) imposed by KRS 141.0401. *Taxpayer* as used in this section refers to the partnership.

Economic Development Tax Credits—This section is completed only if a limited liability pass-through entity has been approved for one or more of the credits authorized by the: (1) Metropolitan College Consortium Tax Credit (MCC – KRS 141.381); (2) Kentucky Small Business Tax Credit Program (KSBTC – KRS 141.384); or (3) Skills Training Investment Credit Act (STICA – KRS 154.12).

A limited liability pass-through entity must not enter income or LLET tax credits on Schedule TCS from:

- Kentucky Rural Economic Development Act (KREDA – KRS 154.22)
- Kentucky Industrial Development Act (KIDA – KRS 154.28)
- Kentucky Jobs Retention Agreement (KJRA – KRS 154.25)
- Kentucky Industrial Revitalization Act (KIRA – KRS 154.26)
- Kentucky Jobs Development Act (KJDA – KRS 154.24)
- Kentucky Business Investment Program (KBI – KRS 154.32)
- Kentucky Reinvestment Act (KRA – KRS 154.34)
- Incentives for Energy Independence Act (IEIA – KRS 154.27)
- Farming Operation Networking Project (FON – KRS 141.412)

A limited liability pass-through entity must file Schedules KREDA-SP, KIDA-SP, KJRA-SP, KIRA-SP, KJDA-SP, KBI-SP, KRA-SP, IEIA-SP, or FON-SP to compute the tax credits for these programs.

To claim the STICA or MCC credit, a copy of the tax credit certification(s) received from Bluegrass State Skills Corporation reflecting the amount of credit awarded must be attached to the tax return. The credit for either the STICA or MCC must be claimed on the tax return filed for the taxable year during which the final authorizing resolution is adopted by Bluegrass State Skills Corporation. The STICA credit not used during the year in which the final authorizing resolution is adopted by Bluegrass State Skills Corporation may be carried forward three successive years; the MCC credit not used during the year in which the final authorizing resolution is adopted by Bluegrass State Skills Corporation may be carried forward to tax years ending before April 15, 2027. If a STICA or MCC credit is being carried forward from a prior year, attach a schedule reflecting the original credit available, the amount of the credit used each year, and the balance of the credit.

To claim the KSBTC credit, a copy of the tax credit notification received from Kentucky Economic Development Finance Authority (KEDFA) reflecting the amount of credit awarded must be attached to the tax return. The credit for the KSBTC must be claimed on the tax return for the taxable year during which the credit was approved by KEDFA. The tax credit not used during the year of approval by KEDFA may be carried forward up to five years. If a KSBTC credit is being carried forward from a prior year, attach a schedule reflecting the original credit available, the amount of the credit used each year, and the balance of the credit.

Economic development tax credits are allowed against the taxes imposed by KRS 141.020 or KRS 141.040 and KRS 141.0401.

Information regarding the approval process for these credits may be obtained from the Cabinet for Economic Development, Department for Financial Incentives (telephone: 502–564–4554) or Bluegrass State Skills Corporation (telephone: 502–564–2021).

Farming Operation Networking Tax Credit—A qualified farming operation which has a farm operation networking project approved by the Cabinet for Economic Development per KRS 141.410 to KRS 141.414 is allowed a credit against the taxes imposed by KRS 141.040 or KRS 141.020 and KRS 141.0401 attributable to the project per KRS 141.412. The annual tax credit is available for the first five (5) years that the farming operation is involved in the networking project. The annual tax credit is equal to the approved costs incurred by the qualified farming operation during the tax year and must not exceed the income, Kentucky gross profits, or Kentucky gross receipts of the qualified farming operation generated by or arising out of the qualified farming operation's participation in a networking project. Schedule FON must be attached to the tax return claiming the credit. **KRS 141.412**

Certified Rehabilitation Tax Credit—This credit is allowed only if the taxpayer has been approved for the credit by the Kentucky Heritage Council. Credit is allowed against the taxes imposed by KRS 141.020 or KRS 141.040 and KRS 141.0401 or KRS 136.505 for qualified rehabilitation expenses on certified historic structures. **KRS 171.3961 and KRS 171.397**

Unemployment Tax Credit—If a taxpayer hired a Kentucky resident classified as unemployed for at least 60 days and the resident remains in the employ of the taxpayer for 180 consecutive days during the tax year (a qualified person), the taxpayer may be entitled to the unemployment tax credit against the taxes imposed by KRS 141.020 or KRS 141.040 and KRS 141.0401. For each qualified person, a one–time nonrefundable credit of $100 may be claimed. The period of unemployment must be certified by the Education and Workforce Development Cabinet, Department of Workforce Investment, Office of Employment and Training, Frankfort, KY, and a copy of the certification must be maintained by the taxpayer. For certification questions, call 502–564–7456. Schedule UTC must be attached to the return claiming this credit. **KRS 141.065**

Recycling/Composting Tax Credit—A taxpayer, which purchases recycling and/or composting equipment to be used exclusively in Kentucky for recycling or composting post-consumer waste materials, may be entitled to a nonrefundable credit against the taxes imposed by KRS 141.020, KRS 141.040, and KRS 141.0401 in an amount equal to 50 percent of the installed cost of the equipment. Application for this credit must be made on Schedule RC and a copy of the schedule reflecting the amount of credit approved by the Department of Revenue must be attached to the tax return on which the credit is claimed. The amount of this credit claimed for the tax year may not exceed 25 percent of the tax liability and cannot exceed 10 percent of the credit approved in the first year of eligibility.

For taxable years beginning after December 31, 2004, a taxpayer which purchases recycling and/or composting equipment to be used exclusively in Kentucky for recycling or composting post–consumer waste material that qualifies as a Major Recycling Project is entitled to a nonrefundable credit against the taxes imposed by KRS 141.020, KRS 141.040, and KRS 141.0401. The credit is an amount equal to 50 percent of the installed cost of the recycling or composting equipment limited to: 50 percent of the excess of the total of each tax liability over the baseline tax liability of the taxpayer or $2,500,000. To qualify, the taxpayer must: (1) invest more than $10,000,000 in recycling or composting equipment to be used exclusively in this state; (2) have more than 750 full–time employees with an average hourly wage of more than 300 percent of the federal minimum wage; and (3) have plant and equipment with a total cost of more than $500,000,000. Application for this credit must be made on Schedule RC and a copy of the schedule reflecting the amount of credit approved by the Department of Revenue must be attached to the tax return on which the credit is claimed. The credit is limited to a period of 10 years commencing with the approval of the recycling credit application.

A taxpayer is entitled to claim the recycling credits in KRS 141.390(2)(a) and (b), but cannot claim both for the same recycling and/or composting equipment. **KRS 141.390**

Coal Conversion Tax Credit—A corporation which converts boilers from other fuels to Kentucky coal or which substitutes Kentucky coal for other fuels in a boiler capable of burning coal and other fuels to produce energy for specific purposes may be entitled to a credit against the taxes imposed by KRS 141.040 and KRS 141.0401 equal to 4.5 percent of expenditures for Kentucky coal (less transportation costs). Unused portions of this credit may not be carried forward or back. Schedule CC must be attached to the tax return claiming this credit. **KRS 141.041**

Kentucky Investment Fund Tax Credit—A taxpayer which makes a cash contribution to an investment fund approved by KEDFA per KRS 154.20–250 to KRS 154.20–284 is entitled to a nonrefundable credit equal to 40 percent of the investor's proportional ownership share of all qualified investments made by the investment fund and verified by the authority. The credit may be applied against the taxes imposed by KRS 141.020 or 141.040, 141.0401, 136.320, 136.300, 136.310, 136.505, and 304.3–270. **A copy of the notification from KEDFA reflecting the amount of credit granted and the year in which the credit may first be claimed must be attached to the tax return claiming this credit.**

The tax credit amount that may be claimed by an investor in any tax year must not exceed 50 percent of the initial aggregate credit amount approved by the authority for the investment fund which is proportionally available to the investor. ***Example:*** *An investor with a 10 percent investment in a fund which has been approved for a total credit to all investors of $400,000 is limited to $20,000 maximum credit in any given year* ($400,000 x 10% x 50%).

If the amount of credit that may be claimed in any tax year exceeds the tax liabilities, the excess credit may be carried forward, but the carryforward of any excess tax credit will not increase the limitation that may be claimed in any tax year. Any credit not used in 15 years, including the year in which the credit may first be claimed, will be lost.

Information regarding the approval process for these credits may be obtained from the Cabinet for Economic Development, Department of Financial Incentives at 502–564–4554. **KRS 141.068**

Qualified Research Facility Tax Credit—A taxpayer is entitled to a credit against the taxes imposed by KRS 141.020 or KRS 141.040 and KRS 141.0401 of 5 percent of the qualified costs of construction, remodeling, expanding, and equipping facilities in Kentucky for "qualified research." Any unused credit may be carried forward 10 years. Schedule QR, Qualified Research Facility Tax Credit, must be attached to the tax return on which this credit is claimed. Federal Form 6765, Credit for Increasing Research Activities, must also be attached if applicable. See instructions for Schedule QR for more information regarding this credit. **KRS 141.395**

GED Incentive Tax Credit—A taxpayer is entitled to a credit against the taxes imposed by KRS 141.020 or KRS 141.040 and KRS 141.0401. The credit reflected on this line must equal the sum of the credits reflected on the attached GED-Incentive Program Final Reports. This credit may be claimed only in the year during which the learning contract was completed and unused portions of the credit may not be carried forward or back. For information regarding the program, contact the Education and Workforce Development Cabinet, Kentucky Adult Education, Council on Postsecondary Education at 502-573-5114. The GED-Incentive Program Final Report (DAEL-31) for each employee that completed a learning contract during the tax year must be attached to the tax return claiming the credit. **KRS 164.0062**

Voluntary Environmental Remediation Tax Credit—The taxpayer must have an agreed order and be approved by the Energy and Environment Cabinet per KRS 224.1-514. Maximum tax credit allowed to be claimed per taxable year is 25 percent of the approved credit. This credit may be claimed against the taxes imposed by KRS 141.020 or KRS 141.040 and KRS 141.0401. For more information regarding credit for voluntary environmental remediation property, contact the Energy and Environment Cabinet at 502–564–6716. Schedule VERB must be attached to the tax return claiming this credit. **KRS 141.418**

Biodiesel Tax Credit—Producers and blenders of biodiesel and producers of renewable diesel are entitled to a tax credit against the taxes imposed by KRS 141.020 or KRS 141.040 and KRS 141.0401. The taxpayer must file a claim for biodiesel credit with the Department of Revenue by January 15 each year for biodiesel produced or blended and the renewable diesel produced in the previous calendar year. The department will issue a credit certification (Schedule BIO) to the taxpayer by April 15. The credit certification must be attached to the tax return claiming this credit. **KRS 141.423 and 103 KAR 15:140**

Clean Coal Incentive Tax Credit—Effective for tax years ending on or after December 31, 2006, a nonrefundable, nontransferable credit against the taxes imposed by KRS 136.120, KRS 141.020, or KRS 141.040 and KRS 141.0401 will be allowed for a clean coal facility. Per KRS 141.428, a clean coal facility means an electric generation facility beginning commercial operation on or after January 1, 2005, at a cost greater than $150 million that is located in the Commonwealth of Kentucky and is certified by the Energy and Environment Cabinet as reducing emissions of pollutants released during generation of electricity through the use of clean coal equipment and technologies. The amount of the credit is $2 per ton of eligible coal purchased that is used to generate electric power at a certified clean coal facility, except that no credit will be allowed if the eligible coal has been used to generate a credit under KRS 141.0405 for the taxpayer, parent, or subsidiary. **KRS 141.428**

Ethanol Tax Credit—Producers of ethanol are entitled to a tax credit against the taxes imposed by KRS 141.020 or KRS 141.040 and KRS 141.0401. The taxpayer must file a claim for ethanol credit with the Department of Revenue by January 15 each year for ethanol produced in the previous calendar year. The department will issue a credit certification (Schedule ETH) to the taxpayer by April 15. The credit certification must be attached to the tax return claiming this credit. **KRS 141.4242 and 103 KAR 15:110**

Cellulosic Ethanol Tax Credit—Producers of cellulosic ethanol are entitled to a tax credit against the taxes imposed by KRS 141.020 or KRS 141.040 and KRS 141.0401. The taxpayer must file a claim for ethanol credit with the Department of Revenue by January 15 each year for cellulosic ethanol produced in the previous calendar year. The department will issue a credit certification (Schedule CELL) to the taxpayer by April 15. The credit certification must be attached to the tax return claiming this credit. **KRS 141.4244 and 103 KAR 15:120**

Railroad Maintenance and Improvement Tax Credit—For tax years beginning on or after January 1, 2010, an owner of any Class II railroad or Class III railroad located in Kentucky or any person who transports property using the rail facilities of a Class II railroad or Class III railroad located in Kentucky or furnishes railroad-related property or services to a Class II railroad or Class III railroad located in Kentucky, but only with respect to miles of railroad track assigned to the person by a Class II railroad or Class III railroad, is entitled to a nonrefundable credit against taxes imposed by KRS 141.020 or KRS 141.040 and KRS 141.0401 in an amount equal to fifty percent (50%) of the qualified expenditures paid or incurred to maintain or improve railroads located in Kentucky, including roadbeds, bridges, and related structures, that are owned or leased as of January 1, 2008, by a Class II or Class III railroad.

The credit allowed must not exceed the product of $3,500 multiplied by the sum of: (1) The number of miles of railroad track in Kentucky owned or leased by the eligible taxpayer as of the close of the taxable year; and (2) The number of miles of railroad track in Kentucky assigned to the eligible taxpayer by a Class II railroad or Class III railroad which owns or leases the railroad track as of the close of the taxable year. Attach Schedule RR-I to the return when claiming the credit. **KRS 141.385**

Railroad Expansion Tax Credit—For tax years beginning on or after January 1, 2010: (a) a corporation that owns fossil energy resources subject to tax under KRS 143.020 or KRS 143A.020 or biomass resources and transports these resources using rail facilities; or (b) a railway company subject to tax under KRS 136.120 that serves a corporation that owns fossil energy resources subject to tax under KRS 143.020 or KRS 143A.020 or biomass resources is entitled to a nonrefundable tax credit against taxes imposed under KRS 141.040 and KRS 141.0401 equal to twenty-five percent (25%) of the expenditures paid or incurred by the corporation or railway company to expand or upgrade railroad track, including roadbeds, bridges, and related track structures, to accommodate the transport of fossil energy resources or biomass resources.

The credit amount approved for a calendar year for all taxpayers under KRS 141.386 is limited to $1 million. If the total amount of approved credit exceeds $1 million, the department will determine the amount of credit each corporation and railroad company receives by multiplying $1 million by a fraction, the numerator of which is the amount of approved credit for a corporation or railway company and the denominator of which is the total approved credit for all corporations and railway companies.

Each corporation or railway company eligible for the credit must file Schedule RR-E by the fifteenth day of the first month following the close of the preceding calendar year. The department will determine the amount of the approved credit and issue a credit certificate to the corporation or railway company by the fifteenth day of the third month following the close of the calendar year. **KRS 141.386**

ENDOW Kentucky Tax Credit—A taxpayer making an endowment gift to a permanent endowment fund of a qualified community foundation, county-specific component fund, or affiliate community foundation, which has been certified under KRS 147A.325, is entitled to a tax credit equal to twenty percent (20%) of the endowment gift, not to exceed $10,000. The nonrefundable tax credit is allowed against the taxes imposed by KRS 141.020 or KRS 141.040 and KRS 141.0401 and if not used in the year the tax credit is awarded, may be carried forward for a period not to exceed five years. The department will issue a credit certification (Schedule ENDOW) to a taxpayer upon receiving proof that the endowment gift was made to the approved community foundation per KRS 141.438(7). Schedule ENDOW must be attached to the taxpayer's tax return each year to claim the credit. A partner, member, or shareholder of a pass-through entity must attach a copy of Schedule K-1, Form 720S, 765, or 765-GP to the partner's, member's, or shareholder's tax return each year to claim the tax credit. **KRS 141.438 and 103 KAR 15:195**

New Markets Development Program Tax Credit—A taxpayer that makes a qualified equity investment per KRS 141.432(7) in a qualified community development entity defined by KRS 141.432(6) is entitled to a nonrefundable tax credit against the taxes imposed by KRS 141.020, 141.040, 141.0401, 136.320, 136.330, 136.340, 136.350, 137.370, 136.390, or 304.3-270. The total amount of tax credits that may be awarded by the department is limited to $10 million. "Qualified low-income community investment" means any capital or equity investment in, or loan to, any qualified active low-income community business made after June 4, 2010. With respect to any one qualified active low-income community business, the maximum amount of qualified active low-income community investments that may be made in the business, on a collective basis with all of its affiliates, with the proceeds of qualified equity investments that have been certified under KRS 141.433 is $10 million, whether made by one or several qualified community development entities.

The amount of the credit will be equal to 39% of the purchase price of the qualified equity investment made by the taxpayer. A taxpayer is allowed to claim zero percent (0%) for each of the first two credit allowance dates, seven percent (7%) for the third allowance date, and eight percent (8%) for the next four allowance dates. "Credit allowance date" means with respect to any qualified equity investment: (a) the date on which the investment is initially made; and (b) each of the six anniversary dates of that date thereafter. **KRS 141.432 to KRS 141.434**

Food Donation Tax Credit—For taxable years beginning on or after January 1, 2018, the tax credit was repealed. 2018 is the final year in which any unused prior year credit carryforward may be utilized. See Schedule TCS, Part II, line 18 to claim this credit. **KRS 141.392**

Film Industry Tax Credit—For applications approved on or after April 27, 2018, a nonrefundable and nontransferable credit against the taxes imposed by KRS 141.020 or KRS 141.040 and KRS 141.0401 is available for taxpayers who have received notification from the film office that the approved company has satisfied all requirements of KRS 148.542 to KRS 148.546. **KRS 141.383**

Inventory Tax Credit—For taxable years beginning on or after January 1, 2018, a nonrefundable and nontransferable tax credit is allowed against the taxes imposed by KRS 141.020 or KRS 141.040 and KRS 141.0401 for ad valorem (property) taxes timely paid on inventory. This credit is phased in as follows: 25% in 2018; 50% in 2019; 75% in 2020; 100% in 2021 and thereafter. **KRS 141.408**

Distilled Spirits Tax Credit—For taxable years beginning on or after January 1, 2015, a nonrefundable and nontransferable credit against the tax imposed by KRS 141.020 or KRS 141.040 and KRS 141.0401 is available to taxpayers who pay Kentucky property tax on distilled spirits.

The distilled spirits credit is equal to: 80 percent of the property tax assessed and timely paid for taxable years beginning on or after January 1, 2018 and 100 percent of the property tax assessed and timely paid for taxable years beginning on or after January 1, 2019.

The amount of the credit is contingent on the costs associated with the following capital improvements at the premises of the distiller: construction, replacement, or remodeling of warehouses or facilities; purchases of barrels and pallets used for the storage and aging of distilled spirits in maturing warehouses; acquisition, construction, or installation of equipment for the use in the manufacture, bottling, or shipment of distilled spirits; addition or replacement of access roads or parking facilities; and construction, replacement, or remodeling of facilities to market or promote tourism, including but not limited to a visitor's center. **KRS 141.389**

TANGIBLE PERSONAL PROPERTY TAXES—The listing period for tangible personal property is January 1 through May 15 of each year. Each taxpayer is responsible for reporting his tangible personalty subject to ad valorem taxation. The Tangible Personal Property Tax Return, Revenue Form 62A500, and instructions can be obtained from your local county property valuation administrator's office or the Office of Property Valuation. You may also go to **www.revenue.ky.gov** to download these forms. A separate form must be filed for each location in Kentucky where you have tangible personal property.

Kentucky State Treasury—Unclaimed Property

Individuals

The Kentucky State Treasury may be holding unclaimed property for you or your family. The Treasury holds hundreds of millions of dollars from bank accounts, payroll checks, life insurance, utility deposits, and other types of property that have been unclaimed by the owners. Please visit www.treasury.ky.gov or www.missingmoney.com for more information on how to locate and claim any funds that may belong to you.

Businesses

Kentucky businesses are required to comply with the Kentucky Revised Uniform Unclaimed Property Act, codified as KRS Chapter 393A. If you have uncashed vendor checks, payroll checks, unclaimed customer deposits or refunds, or other types of property belonging to third-parties, you may be required to turn the property over to the Kentucky State Treasury. Please review KRS Chapter 393A, or visit www.treasury.ky.gov for more information.

Kentucky Department of Revenue
Mission Statement

As part of the Finance and Administration Cabinet, the mission of the Kentucky Department of Revenue is to administer tax laws, collect revenue, and provide services in a fair, courteous, and efficient manner for the benefit of the Commonwealth and its citizens.

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The Kentucky Department of Revenue does not discriminate on the basis of race, color, national origin, sex, age, religion, disability, sexual orientation, gender identity, veteran status, genetic information, or ancestry in employment or the provision of services.

TAXPAYER ASSISTANCE

Forms:

Operations and Support Services Branches
P. O. Box 518
Frankfort, KY 40602–0518
502–564–3658
Website: www.revenue.ky.gov
Email: Financerevenueformsandenvelopes@ky.gov

Information:

Pass-Through Entity Branch
Department of Revenue
501 High Street, Station 52
Frankfort, KY 40601–2103
502–564–8139

Mailing/Payment:

Mail the return to:

Kentucky Department of Revenue, P. O. Box 856910, Louisville, KY 40285-6910. Make the check payable to **Kentucky State Treasurer**.

Mail returns with no tax due or refund requests to:

Kentucky Department of Revenue, P. O. Box 856905, Louisville, KY 40285-6905.

KENTUCKY TAXPAYER SERVICE CENTERS

Information and forms are available from Kentucky Taxpayer Service Centers in the following cities.

Ashland, 1539 Greenup Avenue, 41101-7695
606–920–2037

Bowling Green, 201 West Professional Park Court, 42104-3278
270–746–7470

Corbin, 15100 North US 25E, Suite 2, 40701-6188
606–528–3322

Frankfort, 501 High Street, 40601–2103
502–564–4581 *(Taxpayer Assistance)*

Hopkinsville, 181 Hammond Drive, 42240-7926
270–889–6521

Louisville, 600 West Cedar Street
2nd Floor West, 40202-2310
502–595–4512

Northern Kentucky, Turfway Ridge Office Park
7310 Turfway Road, Suite 190
Florence, 41042-4871
859–371–9049

Owensboro, Corporate Center
401 Frederica Street, Building C, Suite 201, 42301-6295
270–687–7301

Paducah, Clark Business Complex, Suite G
2928 Park Avenue, 42001-4024
270–575–7148

Pikeville, Uniplex Center, Suite 203
126 Trivette Drive, 41501-1275
606–433–7675

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JULY 2018

YOUR RIGHTS

AS A KENTUCKY TAXPAYER

As part of the Finance and Administration Cabinet, the mission of the Kentucky Department of Revenue (DOR) is to administer tax laws, collect revenue, and provide services in a fair, courteous, and efficient manner for the benefit of the Commonwealth and its citizens.

As a Kentucky taxpayer, you have the right to expect the DOR to honor its mission and uphold your rights every time you contact or are contacted by the DOR.

Some Kentucky taxpayer rights are very specific, such as when and how to protest a Notice of Tax Due or the denial of a refund. Others are more general.

The following is a summary of your rights and the DOR's responsibilities to you as a Kentucky taxpayer.

RIGHTS OF TAXPAYER

Privacy

You have the right to privacy with regard to information you provide pertaining to returns, reports, or the affairs of your business.

Assistance

You have the right to advice and assistance from the DOR in complying with state tax laws.

Explanation

You have the right to a clear and concise explanation of:

- ✓ basis of assessment of additional taxes, interest and penalties, or the denial or reduction of any refund or credit claim;
- ✓ procedure for protest and appeal of a Notice of Tax Due, a reduction or denial of a refund, or a denial of a request for additional time to file a supporting statement; and
- ✓ tax laws and changes in tax laws so that you can comply with the law.

Protest and Appeal

You have the right to file a protest with the DOR if you disagree with a Notice of Tax Due, a reduction or denial of a refund, or a denial of a request for additional time to file a supporting statement. If you file a timely protest, you have a right to a conference to discuss the matter. If you are not satisfied with the Department's final ruling following your protest, you may appeal the final ruling to the Kentucky Claims Commission, Tax Appeals pursuant to KRS 131.110(5) and KRS 49.220 et. seq. (See reverse for procedure to file a protest.)

Representation

You have the right to representation by your authorized agent (attorney, accountant, or other person) in any hearing or conference with the DOR. You have the right to be informed of this right prior to the conference or hearing. If you intend for your representative to attend the conference or hearing in your place, you will be required to give your representative a power of attorney before the DOR can discuss tax matters with your authorized agent. See Form 20A100.

Recordings

You have the right to make an audio recording of any meeting, conference, or hearing with the DOR. The DOR has the right to make an audio recording, if you are notified in writing in advance or if you make a recording. You have the right to receive a copy of the recording.

Consideration

You have the right to consideration of:

- ✓ waiver of penalties or collection fees if "reasonable cause" for reduction or waiver is given ("reasonable cause" is defined in KRS 131.010(9) as: "an event, happening, or circumstance entirely beyond the knowledge or control of a taxpayer who has exercised due care and prudence in the filing of a return or report or the payment of monies due the department pursuant to law or administrative regulation");
- ✓ installment payments of delinquent taxes, interest, and penalties;
- ✓ waiver of interest and penalties, but not taxes, resulting from incorrect written advice from the DOR if all facts were given and the law did not change or the courts did not issue a ruling to the contrary;
- ✓ extension of time for filing reports or returns; and
- ✓ payment of charges incurred resulting from an erroneous filing of a lien or levy by the DOR.

Guarantee

You have the right to a guarantee that DOR employees are not paid, evaluated, or promoted based on taxes assessed or collected, or a tax assessment or collection quota or goal imposed or suggested.

Damages

You have the right to file a claim for actual and direct monetary damages with the Kentucky Claims Commission if a DOR employee willfully, recklessly, and intentionally disregards your rights as a Kentucky taxpayer.

Interest

You may have the right to receive interest on an overpayment of tax.

DEPARTMENT OF REVENUE RESPONSIBILITIES

The DOR has the responsibility to:

- ✓ perform audits and conduct conferences and hearings with you at reasonable times and places;
- ✓ authorize, require, or conduct an investigation or surveillance of you only if it relates to a tax matter;
- ✓ make a written request for payment of delinquent taxes which are due and payable at least 30 days prior to seizure and sale of your assets;
- ✓ conduct educational and informational programs to help you understand and comply with the laws;
- ✓ publish clear and simple statements to explain tax procedures, remedies, your rights and obligations, and the rights and obligations of the DOR;
- ✓ notify you in writing when an erroneous lien or levy is released and, if requested, notify major credit reporting companies in counties where lien was filed;

- ✓ advise you of procedures, remedies, and your rights and obligations with an original notice of audit or when an original Notice of Tax Due is issued, a refund or credit is denied or reduced, or whenever a license or permit is denied, revoked, or canceled;
- ✓ notify you in writing prior to termination or modification of a payment agreement;
- ✓ furnish copies of the agent's audit workpapers and a written narrative explaining the reason(s) for the assessment;
- ✓ resolve tax controversies on a fair and equitable basis at the administrative level whenever possible;
- ✓ notify you in writing at your last known address at least 60 days prior to publishing your name on a list of delinquent taxpayers for which a tax or judgment lien has been filed; and
- ✓ notify you by certified mail 20 days prior to submitting your name to the relevant agency for the revocation or denial of professional license, driver's license, or motor vehicle registration.

PROTEST AND APPEAL PROCEDURE

Protest

If you receive a Notice of Tax Due, or if the DOR notifies you that a tax refund has been reduced or denied, or the DOR denies your request for additional time to file a supporting statement, you have the right to protest. To do so:

- ✓ submit a written protest within 60 days from the original notice date (or 45 days if the original notice date is prior to 07/01/2018); notice of refund reduction or denial, or denial of a request for additional time to file a supporting statement;
- ✓ identify the type of tax involved and give the account number, Social Security number, or other identification number and attach a copy of the DOR Notice of Tax Due or refund denial to support that your protest is timely;
- ✓ explain why you disagree;
- ✓ attach any proof or documentation available to support your protest or request additional time to support your protest;
- ✓ sign your statement, include your daytime telephone number and mailing address; and
- ✓ mail to the Kentucky Department of Revenue, Frankfort, Kentucky 40620.

Conference

You have the right to request a conference to discuss the issue.

Final Ruling

If you do not want to have a conference or if the conference did not resolve your protest, you have the right to request a final ruling of the DOR so that you can appeal your case further.

Appeal

If you do not agree with the DOR's final ruling, you can file a written appeal with the Kentucky Claims Commission. If you do not agree with the decision of the Kentucky Claims Commission, you have the right to appeal their ruling to the Kentucky courts (first to the circuit court in your home county or in Franklin County, then to the Kentucky Court of Appeals, and finally to the Kentucky Supreme Court).

NOTE: The above protest and appeal procedures do not apply for real property which is valued by the local property valuation administrator (PVA). Contact the local PVA for information about how to appeal the valuation of real property.

TAXPAYER OMBUDSMAN

The DOR has a Taxpayer Ombudsman whose job is to serve as an advocate for taxpayers' rights. One of the main functions of the Ombudsman is to ensure that your rights as a Kentucky taxpayer are protected.

Also, an important function of the Taxpayer Ombudsman is to confer with DOR employees when you have a problem or conflict that you have been unable to resolve. However, it is not the role of the Ombudsman to intercede in an audit, handle a protest, waive taxes, penalty or interest, or answer technical tax questions. To file a protest, see PROTEST AND APPEAL PROCEDURE. Please do not mail your protest to the Ombudsman.

The Taxpayer Ombudsman is your advocate and is there to make sure your rights are protected. If you think you are not being treated fairly or if you have a problem or complaint, please contact the Ombudsman for assistance.

The Taxpayer Ombudsman may be contacted by telephone at 502–564–7822 (between 8:00 a.m. and 5:00 p.m. weekdays). The mailing address is: Department of Revenue, Taxpayer Ombudsman, P. O. Box 930, Frankfort, Kentucky 40602-0930.

WHERE TO GET ASSISTANCE

The DOR has offices in Frankfort and taxpayer service centers in nine cities and towns throughout Kentucky. DOR employees in the service centers answer tax questions and provide assistance. You may obtain assistance by contacting any of the following:

Ashland Taxpayer Service Center
1539 Greenup Avenue, 41101–7695
606–920–2037

Bowling Green Taxpayer Service Center
201 West Professional Park Court, 42104–3278
270–746–7470

Corbin Taxpayer Service Center
15100 North US25E, Suite 2, 40701–6188
606–528–3322

Frankfort Taxpayer Service Center
501 High Street, 40601–2103
502–564–4581 *(Taxpayer Assistance)*

Hopkinsville Taxpayer Service Center
181 Hammond Drive, 42240–7926
270–889–6521

Louisville Taxpayer Service Center
600 West Cedar Street, 2nd Floor West, 40202–2310
502–595–4512

Northern Kentucky Taxpayer Service Center
Turfway Ridge Office Park
7310 Turfway Road, Suite 190
Florence 41042–4871
859–371–9049

Owensboro Taxpayer Service Center
401 Frederica Street, Building C, Suite 201, 42301–6295
270–687–7301

Paducah Taxpayer Service Center
Clark Business Complex, Suite G
2928 Park Avenue, 42001–4024
270–575–7148

Pikeville Taxpayer Service Center
Uniplex Center, 126 Trivette Drive, Suite 203, 41501–1275
606–433–7675

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The DOR has an online taxpayer service center where you can download forms, publications, and obtain general information about the department. The address is www.revenue.ky.gov.

The information in this brochure merely summarizes your rights as a Kentucky taxpayer and the responsibilities of the Department of Revenue. The Kentucky Taxpayers' Bill of Rights may be found in the Kentucky Revised Statutes (KRS) at Chapter 131.041-131.083. Additional rights and responsibilities are provided for in KRS 131.020, 131.110, 131.170, 131.1817, 131.183, 131.190, 131.500, 131.654, 133.120, 133.130, 134.580, and 134.590.

The Kentucky Department of Revenue does not discriminate on the basis of race, color, national origin, sex, age, religion, disability, sexual orientation, gender identity, veteran status, genetic information or ancestry in employment or the provision of services.

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DEPARTMENT OF REVENUE

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